

VZCZCXRO0189
OO RUEHAG RUEHBC RUEHDE RUEHDIR RUEHKUK RUEHROV
DE RUEHRL #0554/01 0791331
ZNY CCCCC ZZH
O 201331Z MAR 07
FM AMEMBASSY BERLIN
TO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUEHC/SECSTATE WASHDC IMMEDIATE 7556
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE IMMEDIATE
RUCNFRG/FRG COLLECTIVE IMMEDIATE
RUCNIRA/IRAN COLLECTIVE IMMEDIATE
RUEHMO/AMEMBASSY MOSCOW IMMEDIATE 1728
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 0989
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 1410

C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 000554

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/18/2017

TAGS: [EFIN](#) [ETTC](#) [PREL](#) [GM](#)

SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT'S MEETING WITH
GERMAN FINANCE MINISTRY STATE SECRETARY MIROW

Classified By: EMIN Robert F. Cekuta for reasons 1.4 (b) and (d).

¶1. (C/NF) Summary: Treasury Deputy Secretary Kimmitt and German Finance Ministry State Secretary Dr. Thomas Mirow discussed the increased risks facing German firms in Iran and the need for targeted financial measures focused on Iranian illicit conduct. They also discussed hedge funds, the financial services industry, and German plans regarding the future of Economic Recovery Program funds. End Summary.

Iran Sanctions and Export Credits

¶2. (C/NF) Highlighting the recent action on North Korean-related funds in Banco Delta Asia, Treasury Deputy Secretary Kimmitt expressed hope that a similar approach --

SIPDIS

narrowly targeted financial measures focused on illicit conduct -- would also produce results in Iran. To that end, he underscored the need for a UNSC resolution to accompany continued dialogue with close allies. Mirow felt the P5 1 countries were coming to an agreement, but added that Germany wishes to prevent another crisis in the region. He added Ahmadi-nejad's election surprised most observers, underscoring the problem Iran's opaque domestic situation would present in evaluating the impact of an UNSC resolution on the regime.

¶3. (C/NF) Acknowledging the change in Iran's credit risk rating by the OECD, Treasury Deputy Secretary Kimmitt warned Mirow that providing export credits to German firms working in Iran could prove counter to our common goals by covering the additional risk generated by Iran's own political behavior. Iran should be held responsible for the additional risk its policies create, including increased costs of conducting business. Breaking Germany's long tradition of good bilateral economic dealings with Iran would prove difficult, Mirow explained, and Germany would need to walk a thin line, potentially by narrowing Hermes credit financing. Deputy Secretary Kimmitt emphasized that risks with Iranian state-owned banks remained especially acute.

Financial Sector and Hedge Funds

¶3. (SBU) Treasury Deputy Secretary Kimmitt emphasized that the February statement of the President's Working Group represent the beginning, not end, of discussions about hedge fund regulation and that the G-7 was the optimal forum to continue international dialogue. Mirow responded that the

February G-7 meeting in Essen reached consensus on tasking the Financial Stability Forum (FSF) to present an update of its 2000 report on the issue at the April IMF meetings in Washington. Mirow further added Germany does not wish to pursue hedge fund regulation but sees the need for greater exchanges of information between the financial services industry and public sector regulators. He said G-7 Deputies would meet with the private sector on the margins of the Washington IMF meeting while developing a policy paper to present at the May G-8 Finance Ministerial in Potsdam. Conceptually, these efforts would focus on a code of conduct for market participants and a set of best practices mutually agreed upon by industry and regulatory agency representatives. Mirow added Japan would need to decide how to clarify and follow-up on plans regarding hedge funds for their 2008 G-7/G-8 presidency.

¶4. (SBU) Mirow explained Chancellor Merkel may seek to introduce hedge fund discussions into the June G-8 Summit in Heiligendamm, reflecting her sense that the leaders need to focus, at least for a portion of their meetings, on economic issues. Mirow added it is not Finance Minister Steinbrueck's suggestion that leaders look at hedge fund issues. Treasury Deputy Secretary Kimmitt noted the U.S. sees this as a G-7, not G-8 topic, and that it would be important to deal with hedge funds as a financial, not a political, issue. One possibility if the Chancellor insisted on discussing hedge funds at Heiligendamm would be a reference in the G-8 Summit communiqu highlighting the work undertaken in G-7 finance ministerials on hedge fund issues.

Economic Recovery Program

¶5. (C/NF) Treasury Deputy Secretary Kimmitt cited the strong U.S. concerns about draft German legislation to

BERLIN 00000554 002 OF 002

transfer Economic Recovery Program (ERP) funds to the German development bank Kreditanstalt fuer Wiederaufbau (KfW). Ahead of a the first Bundestag reading of the bill March 22, Deputy Secretary Kimmitt cited potential congressional concern about any decision that would either refocus funds inconsistent with the original intent of the allocation or would divert USG money to any organization that may support controversial funding projects. Mirow acknowledged the important historical legacy of the Marshall Fund-era ERP as a fundamental element of the German-U.S. relationship and added the German government's view that the means of using the capital would not change. In response to any potential concerns about Iran, Mirow noted that any UNSC resolution adopted on Iran sanctions would provide a legal basis for revising any Iran-related activities of KfW. Deputy Secretary Kimmitt added that strengthening KfW's balance

SIPDIS

sheet with ERP funds would reduce the bank's lending costs and could create an attractive alternative from commercial banks for firms like EADS. Mirow responded that depositing ERP funds in KfW would not change EADS' activities with the bank, concluding that the German government, not KfW, would assume the risk in this case.

¶6. (U) Deputy Treasury Secretary Kimmitt has cleared this message.
KOENIG